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National Community Investment Fund: Financing Depository CDFIs Nationwide

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The National Community Investment Fund (NCIF) is a \$23 million certified CDFI created to increase the number and capacity of domestic CDFIs that are both effective agents of local community development in emerging markets and sound financial institutions. NCIF operates by reinvesting the funds it gathers from financial institutions and other investors in banks and selected credit unions with a primary mission of community development in underserved urban, rural, and reservation communities.

The development banking sector offers institutional investors unprecedented leverage for their community development investment. During 2000, fourteen institutions in NCIF's portfolio disbursed almost \$200 million in over 7,000 new development loans, leveraging NCIF's investment more than 17 times. The average loan size of \$100,000 for small businesses is well below that of larger financial institutions and demonstrates the important niche these CDFIs serve. Development banks and credit unions possess infrastructure and market knowledge to disburse a range of credit that is lifeblood to communities—for small business, community facilities and organizations, homeownership, and other household needs. Their federal deposit insurance attracts savings and checking accounts from a range of individual and institutional depositors significantly leveraging their equity investments. They offer the full range of individual, small business, and organizational accounts and loans to promote saving and wealth building, as well as to serve retail transaction needs for households and businesses.

Through December 31, 2001, NCIF made commitments of \$17 million to twenty-six institutions. These financings are mostly for expansion of existing depositories. They include three Seed Fund loans that backed the launch of new development banking institutions--City First Bank of DC, N.A., Hawaiian Community Assets, and Native American Bancorporation of Denver.

NCIF is in an expansion mode, with emphasis on three programs to increase scale and impact: New Markets Tax Credits, the Retail Financial Services Initiative, and NCIF's Performance Initiative.

New Markets Tax Credit

NCIF was one of a number of CDFI intermediaries and trade associations to receive grants from the Ford Foundation for development of initiatives to utilize New Markets Tax Credits (NMTC). NCIF is using the grant proceeds to deliver NMTC training sessions and conduct outreach for development banks and investors and to implement its strategy as a wholesaler of NMTC investments for the development banking sector. NCIF is creating a for-profit community development entity subsidiary to raise new investor capital and execute its NMTC strategy. NCIF's reinvestment of equity, equity-like debt, and jumbo deposits in development banks and credit unions nationwide will provide critical resources to portfolio institutions and attractive yields to investors. These institutions can leverage NMTC investments with deposits to achieve high volumes of qualifying small business, commercial real estate, and community facilities loans.

NCIF offers institutional investors a full-service approach to managing their investment in the development banking sector. This includes identifying qualified prospects in urban, rural, and reservation communities; underwriting, structuring, closing, and monitoring investments (including NMTC compliance); assessing financial and development impact; researching development banking techniques to promulgate best practices; convening the "NCIF Network" to promote discussion of sector practices, challenges, and innovation; facilitating working relationships between NCIF's investors and the institutions their investments support; and keeping investors apprised of such opportunities as the Bank Enterprise Award and New Markets Tax Credit that can enhance their returns on community development investments.

Retail Financial Services Initiative

With support from the Fannie Mae, Annie E. Casey, Ford, and John D. and Catherine T. MacArthur Foundations, NCIF is launching a three-year Retail Financial Services Initiative (RFSI) to develop replicable and profitable business models for serving low-income and unbanked households. Fifteen development banking institutions will track product specification, target market penetration, cross selling, profitability, and partnership data with the goal of developing specific products that meet retail financial and asset building needs while being profitable for financial institutions to offer.

RFSI will focus on five product and service concepts: check cashing services or partnerships, access accounts (the range of first-time accounts, including card based, savings, checking or Earned Income Tax Credit-incented), alternative channels of distribution (such as mobile branches or internet banking access in housing developments), alternative emergency credit (including alternative payday loans and overdraft protection), and non-depository services (including insurance and investment products).

A key RFSI objective will be to explore partnerships between large and small financial institutions to improve retail financial service delivery in underserved markets. NCIF is forming an RFSI Advisory Board representing expertise from large financial institutions, technology vendors, regulators, and policy researchers to bring state of the art information to the project. It

will implement an extensive communications network to keep all interested parties informed of RFSI findings. NCIF is also seeking in-kind support for RFSI, such as contributed or shared-cost ATM machines or marketing support. Finally, it is seeking financial support in the form of deposits or investments at RFSI participating development banking institutions (which can be placed through NCIF), or operating support for the project. In these efforts, NCIF is interested in coordinating with large institutions in a manner that supports CRA community development, investment, and services objectives.

Performance Initiative

With support from Fannie Mae, NCIF launched a partnership with Alex Sheshunoff Management (ASM) Services to work with 20 NCIF-network banks to improve efficiency ratios five percent in the year 2002. ASM is applying its experience to identify revenue enhancement and cost containment techniques consistent with the mission and operating requirements of banks serving low- to moderate-income areas. ASM identifies six key areas for efficiency improvements by any bank: asset quality, investment portfolio, interest income, interest expense, non-interest income and non-interest expense. ASM prepared a series of reports on each participating bank to assess its performance in these areas relative to a series of peer banks. With ASM's advice, participants have developed efficiency enhancement strategies for their institutions. ASM meets quarterly with participating banks to review progress and exchange techniques.

NCIF welcomes inquiries and participation in these projects. Development-oriented institutions interested in financing from NCIF, or large institutions interested in participating in its NMTC or RFSI initiatives, should contact Lisa Richter at (773) 420-4910 or via email at lrichter@ncif.org.